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# VODACOM GROUP LIMITED

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**Annual General Meeting**
18th July 2022
Financial Year End: 31st March 2022

| **Proxies voted** |
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| |
| The Ditikeni Trust |

It is gratifying that the Company has included the presentation of the Social and Ethics Committee Report on the Agenda for the AGM after we queried this last year. We commend the company for acting on our query and for writing back to us to inform us of their action. We welcome the CEO's statement *in the context of socioeconomic inequalities … the intersection of climate change and the threat it poses to livelihoods is undeniable … by following responsible business practices, we seek to play a positive role in addressing climate change.*

Independence of the board is not as it should be with 42% of the board independent, the board should have a minimum of 50% independent directors. Vodacom quotes the King IV code of conduct on its website but omits the section dealing with independence. We recognise the fact that Vodaphone effectively controls 60% of the company and as such it is appropriate that it appoint directors to the board, we further recognise that Vodaphone employees bring industry leading expertise to the board. However, it is not appropriate that they dominate the board to this extent.

The remuneration policy report is insufficiently clear on a number of issues and the financial measures are ultimately all linked to the budgets, as such the over achievement of most targets requires more explanation. Given the stated commitment to ESG (Environmental, Social and Governance) we do not think the ESG metrics in executive remuneration are sufficient both in terms of weighting and actual measures.

The Chairman states in his letter to shareholders in the Notice of the AGM that *Vodacom supports the use of electronic communications which will deliver savings to the company …. as well as speeding up the provision of information … to lower our paper consumption while at the same time reducing solid waste and our carbon footprint, we will be printing a limited number of the 2022 integrated report.* Given this statement and the fact that Vodacom is a leading electronic communications company it is startling that the Integrated Annual Report (Report) is far behind the norm in terms of digital reports. It is laid out to be printed with 2 portrait pages alongside one another and limited hyperlinks. To make matters worse, there are graphics spread over a number of pages which cannot possibly be read with ease on a computer screen. There is a slight improvement over prior years in that weblinks now take the reader to the correct page/report on the website. A poor effort by *Africa's leading communications company.*

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | Presentation of the report of the Group Transformation, Social and Ethics Committee | As stated in the introduction we commend Vodacom for correctly including the Social and Ethics Committee Report on the Agenda and for issuing their first TCFD Report (Task Force on Climate Related Financial Disclosure).<br>The Social and Ethics Committee Report is well referenced to the UN (United Nations) SDGs (Social Development Goals) with easy click throughs to more detail on each of the issues raised under each of the SDGs. It is good to read the CEOs statement that *ESG delivery is not a standalone effort but rather one that is intricately interlinked to our strategy and impact going forward*. We agree that ESG should inform all business decisions.<br>However, it is sometimes a fine line between good business and social responsibility and it is necessary to be clear on the distinction. As with many companies, Vodacom may be presenting good business as social responsibility – for example, *Enabling cashless payments and financial inclusion* seems to be a business imperative not a social responsibility, although it may have positive social implications.<br><br>The Report states the company's goal is to *halve scope 1 and scope 2 carbon emissions by 2025 100% of our electricity consumption will be from renewable sources by 2025*. However, laudable as this may be, it seems to beyond the reach of the company given the statement that *certificates would have to be purchased to meet the Group's public commitment to halve scope 1 and 2 GHG emissions by 2025 and to procure 100% of our electricity from renewable sources*. Given this and the associated cost we would expect to see a greater emphasis on the reduction of GHGs in the remuneration report.<br>We would also like to see more reporting on the company Gini Coefficient in light of the CEOs statement that societal challenges include *increased poverty, inequality and unemployment*. The Remuneration Report states that the company will comply with whatever requirements are finally included in the revisions to the Companies Act. These revisions have been in progress for many years and we would | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | like to see companies such as Vodacom take the lead in wage gap disclosure.<br>E waste is a growing problem with reports of some first world countries dumping such waste in poor countries. Vodacom states that it is *driving action to reduce device waste and progressing against our target to reuse, resell or recycle 100% of our network waste* (our emphasis) A proactive approach to e waste by companies such as Vodacom who are driving the sale and distribution of devices which will all end up in waste, would be welcome. | | |
| | **Ordinary Resolution** | | | |
| 1 | Adoption of Annual Financial Statements (AFSs) for the year ended 31st March 2022 | It is not a legal requirement in South Africa for a company to present the AFSs for adoption by the shareholders but we do consider it best practice to do so. We commend Vodacom for following best practice. The auditors state that, in their opinion, the AFSs fairly present the financial results and financial position of the company.<br>We support the adoption of the AFSs. | FOR | FOR 100% |
| | Election of the Directors of the Company | We have in the past noted that Vodaphone control 60% of the shares in the company and as such they should appoint a fair number of directors, we also recognise that many of their employees have unique industry experience. However, we consider their level of involvement in the selection of directors to be beyond what is acceptable and that the board is insufficiently independent with less than 50% of the board being independent. Unfortunately, independence remains unacceptable with the company noting that 42% of directors are independent. The company website states *King IV recommends that the governing body (Board) should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively*. What it fails to include in that statement is that King IV goes on to state *The governing body should comprise a majority of non-executive members, most of whom should be independent* (our underlining). This is not the case with Vodacom's board. | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | It is disappointing that the company chose to ignore the fact that more than 50% of the free-float shares (those not controlled by Vodafone) voted against the only Vodafone appointed director at the last AGM. We note that Ms Nqweni is being appointed to the board at this AGM having served as Ms Mahanyele-Dabengwa's alternate to the board for some time. We are not told what her tenure in that position was and watch with interest to see what the company will say regarding this. We also consider the continuity of the board and again find the Vodacom board wanting. Few of the directors have service above 3 years and only Mr Otty has long service. The Chairman states that directors with 10 years' service are required to retire at the AGM. Mr Otty has now reached that limit and we are most surprised that his retirement has not been announced given that Mr Brown's retirement has been announced. Mr Otty is a Vodaphone nominee to the board. Given the heavy presence of Vodaphone employees on the board, it is not surprising that racial diversity of the board is not on a par with similar SA companies. Both executive directors are black which is commendable and the executive team have good black representation but need to work on gender diversity. Gender diversity at board level is acceptable at 40% but whilst diversity of nationality is high, it is almost exclusively from Vodaphone UK. We would like to see some representation from the other African Countries in which Vodacom is invested. Age diversity is good with a relatively young board which is not unexpected in the industry.<br>Skills appear to be satisfactory but information is limited.<br><br>A board that is insufficiently independent, with poor continuity which does suggest insufficient planning ahead and does not appear to comply with King IV's requirement for succession planning at board level. A lack of representativity of countries in which Vodacom is invested does not auger well for growth in those markets. It seems to be very much a top-down board (with Vodafone as the top) and it does not meet the requirements of the King Code. | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 2 | Election of Ms NC Nqweni as a director | Ms Nqweni, 47, is suitably skilled and experienced to serve on the board. Ms Neweni's attendance at board and committee meetings as an alternate director was good.<br>She has served as an alternate director to Ms Mahanyele-Dabengwa, we are not told her tenure in this position which is poor disclosure. This also raises some concern regarding her independence but this is insufficient reason to oppose her appointment to the board.<br>She has 2 other directorships per the Old Mutual Report although Vodacom only lists 1. Again, poor disclosure but no reason to oppose her appointment. | FOR | FOR 99.9% |
| 3 | Re-election of Mr JWL Otty as a director | Mr Otty, 58, is the Vodafone Group Financial Controller. We are given no details regarding other directorships and could find none. His attendance record is impeccable.<br>He has served on the board for 10 years; the Chairman's Report states *Vodacom has a self-imposed 10-year tenure* [limit] *for independent board members*. The only other director who has served for 10 years steps down at the AGM so we are surprised that Mr Otty is standing for re-election.<br>We have grave concerns regarding the independence of the Vodacom board as outlined above, Mr Otty is not an independent director. Further the apparent disregard for the self-imposed tenure rule is of concern, particularly when it applies to one of the Vodafone directors. We oppose Mr Otty's continued appointment to the board. | AGAINST | FOR 98.2% |
| 4 | Re-election of Mr S Sood as a director | Mr Sood, 61, has been a director for 4 years and as such is one of the few directors with more than 3 years tenure on the board. Mr Sood's attendance record at board meetings was good.<br>Mr Sood has previously served as a director at some of Vodacom's East African investments. He is a long serving Vodafone employee, and CEO of Vodafone India.<br>Despite our concerns regarding the number of Vodafone appointees to the board, we support Mr Sood's appointment given his depth of experience in emerging markets. | FOR | FOR 98.5% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 5 | Re-election of Ms Mahanyele-Dabengwa as a director | Ms Mahaneyle-Dabengwa, 51, has been a director for 3 years. She is suitably skilled and experienced and her attendance record was impeccable.<br>She is CEO of Naspers a company which is not noted for its good governance practices but we could find no other directorships for her. We do have a concern regarding Ms Mahaneyle-Dabengwa's level of commitment given the difficulties faced by Naspers, but this concern is insufficient to oppose her re-appointment. | FOR | FOR 99.4% |
| 6 | Appointment of Ernst & Young (EY) as auditors of the Company | EY are one of the large multi-national audit firms and are suitably skilled to carry out the audit of Vodacom. They have been auditors for 3 years and we have no cause to doubt their independence. | FOR | FOR 99.9% |
| 7 | Approval of the advisory vote on the remuneration policy | It is perhaps ironic that the chair of Remco (Remuneration Committee) is the CEO of Naspers whose remuneration policy and implementation is controversial at least, a recent report in the Financial Mail stated: *Naspers, whose remuneration policy is one of the most hated on the JSE.*<br>Nevertheless, shareholders have given overwhelming support to the remuneration resolutions over the last 4 years. Active Shareholder has opposed the remuneration policy in the past largely as a result of the level of discretion and lack of information around the STI.<br>We are disappointed that Vodacom has not disclosed its pay gap but states that they *will disclose the required statutory pay gap statistics when this is determined* by the Companies Act, ie. they will only do this when required so to do by the law. This is not the level of good governance which we have come to expect from Vodacom.<br>The Report only discloses 3 members of Remco, however the attendance register and Non-Executive Director Remuneration report indicate that 4 directors attend this committee meetings and are remunerated for that attendance. This is confusing and at best poor disclosure.<br>Two of the 4 directors are independent. One of the independent directors was due to retire and is unfortunately is now deceased, leaving only 1 independent director on Remco. Best practice is that <u>the</u> | AGAINST | FOR 98.2% |

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| | | <u>majority</u> of Remco members should be independent directors which was not been the case even before the unfortunate death above.<br>We favour the policy of executives only attending Remco meetings *to participate in specific discussions*, this is as it should be.<br>Benchmarking we are told is done for all elements of executive remuneration and the various reports used in the benchmarking are named. We favour independent benchmarking for executives, which does not seem to be the case with Vodacom.<br>The Remuneration structure consist of Guaranteed Pay (GP), Benefits (medical, retirement & insurance), STI (Short Term Incentive) and LTIP (Long Term Incentive Plan). All employees receive GP and Benefits and all employees other than those who earn commission are eligible for STIs. Only executives and senior employees are eligible for the LTIP.<br>All employees are also eligible for Other Programmes which are defined *lifestyle benefits, including employee discounts: cellphone, data and fibre benefits; maternity and parental leave; and annual executive health checks*.<br>The Report states that STI payments *are discretionary and based on achieving financial and strategic measures*. **We do not favour discretionary payments** but would prefer to see clear and achievable targets which employees can work towards.<br>The STI caps for the CEO and CFO are 100% and 75% of annual gross annual pay when targets are reached with a maximum for stretch targets of 200% and 150% of gross annual pay.<br>The STI is determined in the case of the CEO and CFO, by multiplying <u>Annual Gross Pay</u> by <u>Target Incentive</u> multiplied by <u>Business Performance</u> multiplier. Other employees have Personal Performance multipliers rather than Business Performance.<br>We are given **no information on how or what Target Incentive** is for any employees. We have noted this in the past and opposed this resolution on the basis that we do not know how this is calculated.<br>The Business Performance multiplier is determined as follows. The financial metrics are *typically determined based on budgets*, service revenue | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | was discontinued due to Covid for 2022 but is reintroduced for 2023. This made no sense whatsoever as the other financial metrics were based on service revenue!<br>Metrics for the STI and their targets are (all metrics weighted at 25%):<br>1 Service Revenue, threshold 95%, target 100%, stretch 105%.<br>2 EBIT (Earnings Before Interest and Taxation), threshold -2.5% of <u>service revenue</u>, target 100%, stretch +2.5% of service revenue target.<br>3 OFCF (Operating Free Cash Flow), threshold -2.5% of <u>service revenue</u>, target 100%, stretch +2.5% of service revenue target.<br>4 Customer satisfaction, based on NPS; Active base; Churn; and Revenue market share.<br>We are pleased to see such high emphasis on customer satisfaction but the measures and targets are not clear. **The financial metrics are reasonable but their link to the first metric (service revenue) is confusing** and suggests that they will all be achieved or not as the case may be.<br>The Report does not actually say that LTI awards are in the form of shares but leaves the reader to assume this. Vesting of shares is now 100% performance based which we are pleased to note (previously the CFO's vesting was only 50% performance based with the balance purely on remaining in the employee of the company).<br>Share awards are split into Vodacom shares which are bought on the open market and Vodafone CSP (Conditional Share Plan) with 75% of slightly more in Vodacom shares. We are given no explanation as to why the CEO and CFO are awarded Vodafone shares as they can have little influence on the performance of that company.<br>We find the amount of the LTIs to be very high with target and stretch allocations of 225% and 433% of Annual Gross Pay for the CEO and 135% and 270% for the CFO.<br>The performance conditions for vesting and weighting thereof are: OFCF (Operating Free Cash Flow) 60%, Relative TSR (Total | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | Shareholder Return) 30% and ESG (Environmental, Social and Governance) 10%.<br>This is a high reliance on OFCF, we are told this *ensures we apply prudent cash management and rigorous capital discipline to our investment decisions*.<br>The use of Relative TSR is appropriate and we are provided with the companies used in the comparison.<br>We are pleased that ESG forms part of the remuneration metrics but do find it to be a small element of total remuneration. We also question whether to *reach 72.6 million financial services customers* by 2024 is indeed a social metric rather than good business. The other ESG metrics are to see 38.5% female representation in management and 25% reduction in GHGs (Green House Gases) by 2024. This focus does not reflect the stated objectives in the Sustainability Report which states that the committee *focused keenly on environmental impact and climate change*.<br>The targets for OFCF and TSR are disclosed as a percentage of the three-year plan for OFCF and as a percentage of the comparator group TSR for the TSR metric. We consider the threshold targets to be soft.<br>It is pleasing to note that dividends on <u>stretch portion</u> of forfeitable shares will no longer be payable until vesting. We do not think dividends should be paid on any shares until vesting but this is an improvement.<br>The vesting period is not stated but again we are left to draw the conclusion that it is 3 years.<br>Malus and clawback apply and the CEO and members of Exco have a minimum shareholding requirement. This is as it should be.<br><br>**The Report is fairly clear and understandable but some key information is not supplied. In particular the basis for calculating the *Target Incentive* which forms the basis of the STI is not provided. The failure to disclose that the LTI is a share-based award and the vesting period is sloppy. We are not convinced the ESG metrics are the most appropriate. We oppose the resolution due to the poor disclosure on *Target Incentive*.** | | |

<table>
<tr><th></th><th>Resolution</th><th>Rationale</th><th>Vote</th><th>Outcome of AGM</th></tr>
<tr><td>8</td><td>Approval for the implementation of the remuneration policy</td><td>The Report states that the company performs annual benchmarking in the various jurisdictions in which it operates. It does not provide the details of such benchmarking but does provide a table of salary increases awarded by the company in those jurisdictions.<br>The Guaranteed Pay (GP) increase of the CEO on par with increases awarded to other employees but at 5% is above most increases at this level in SA. The CFO's increase at 7.5% is high enough to require a proper explanation. We are told that the CFO's increase is In line with our strategy to attract and retain female talent, the CFO was awarded a slightly higher salary increase to ensure her pay remains competitive in comparison to her peers and market.<br>The Non-Executive Directors fees we are told are not compared to the banks as banks' fees are noticeably higher than other industries. This is true, however, when it comes to executive remuneration, Vodacom is ahead of the banks with the CEOs base pay 25% higher, and the CFOs base pay 38% higher than their counterparts at Standard Bank.<br>We find that the CFOs pay in particular is out of line with comparable companies.<br>The Report gives a score for each of the metrics but information is insufficient to assess whether the scores are fair. Ratings on each of the metrics were above target. The customer satisfaction metric was evaluated at 129.2% (that is nearly 30% above target), however the latest independent survey we could find do not seem to justify such a high customer satisfaction (https://techfinancials.co.za/2020/05/26/).<br>Financial targets are all based on budget.<br>Single Figure Remuneration for the CEO and CFO was (R 000s) (Guaranteed Pay; Short Term Incentive; Long Term Incentive):
<table>
<tr><th></th><th>GP</th><th>STI</th><th>LTI</th><th>Dividends</th><th>TOTAL</th></tr>
<tr><td>CEO</td><td>13 157</td><td>16 744</td><td>29 475</td><td>8 136</td><td>67 512</td></tr>
<tr><td>CFO</td><td>11 113</td><td>9 128</td><td>7 031</td><td>1 195</td><td>28 467</td></tr>
</table>
The CFO only joined a year ago and as such her LTI awards are limited to her sign-on share awards. Dividends are paid on unvested shares.</td><td>AGAINST</td><td>FOR 98.6%</td></tr>
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| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | LTI targets were exceeded overall despite the fact that OFCF (Operating Free Cash Flow) did not reach target. Interestingly the OFCF target for the STI was exceeded.<br>However, LTI metric for TSR (Total Shareholder Return) was 200%! Thus overall, the LTI was over 100%.<br>Vodacom has been a steady performer and shareholders are generally happy with the performance. The CEO has been in his current position for 10 years whereas the CFO was only appointed in November 2020. It is important for the company to retain the senior executives and for them to be awarded in line with company performance. However, we find the CFOs remuneration excessive and the level of dividends paid justifies our position that dividends should not be paid on unvested shares (the company has moved to limit such dividends as outlined under policy).<br>**We oppose the resolution on the grounds that GP is high, the CFOs remuneration is out of line of industry norms and dividends on unvested shares are very high.** | | |
| | Appointment of the members of the Audit, Risk and Compliance Committee | Given our concerns regarding the independence of the board as outlined above, it is of special concern that the audit committee be, and be seen to be, independent. | | |
| 9 | Re-election of Mr CB Thomson as a member of the Committee | Mr Thomson, 55, has been an independent non-executive director for 2 years. He is suitably skilled and experienced to serve on this committee and his attendance record was impeccable.<br>Mr Thomson serves on this board as well as the boards of Woolworths, ADvTECH Limited and Borusan Makina. | FOR | FOR 99.8% |
| 10 | Re-election of Mr KL Shuenyane as a member of the Committee | Mr Shuenyane, 51, has been a director for 2 years and will take over as Lead Independent Director after this AGM.<br>He is suitably skilled and experienced and his attendance record was good. He is on the Board of Directors at Ninety One, Investec Property Fund, Investec, as well as Vodacom. | FOR | FOR 99.8% |
| 11 | Re-election of Ms NC Nqweni as a member of the Committee | Ms Nqweni has been evaluated as a director under 2 above and we support her appointment to the board and this committee. | FOR | FOR 99.9% |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | **Special Resolutions** | | | |
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| 1 | General authority to repurchase ordinary shares in the Company | We do not in favour a general authority to purchase the company shares without good reasons.<br>This authority is limited to the issue of shares up to 5% of the shares in issue, shall expire at the next AGM, and the price may not exceed 10% of the average price.<br>However, the reason for the resolution we are told is *to grant the Company a general authority* and the effect we are told *is to confer a general authority on the Company*. What we are not told is the reason why the company wishes to have this resolution and what the effect of such a share purchase would be on the company.<br>We are given no information on the circumstances which would result in the directors exercising the powers granted under this resolution. | AGAINST | FOR 99.1% |
| 2 | Increase in non-executive directors' fees | We are told that the company believes that Non-Executive Directors' (NEDs) responsibilities *extend beyond meeting attendance. For this reason, fees are set as single retainer amount*. We consider an attendance fee to be a minimum requirement although we do recognise that it is a very blunt instrument in terms of measuring performance.<br>It is pleasing that the comparator group of companies used to measure NED fees is provided. It is also pleasing to note that the company excluded banks from the comparator group given that fees paid by the banks, *as their NED fees are noticeably higher than those of other industries*.<br>Overall, fees are reasonable but we do not support fees paid unless there is a measure of performance such as an attendance fee. | AGAINST | FOR 99.8% |

**OUTCOME OF THE AGM**

The meeting was very well attended with 94% of issued shares voted, shares voted was good even when looking at the free-float shares only (ie excluding the Vodafone shares). The number of shareholders who voted declined from 73 in 2021 to 52 – it is disappointing that small shareholders do not vote their shares. All resolutions were passed with significant majorities.